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CENTRAL INTELLIGENCE BULLETIN



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DAILY BRIEF

I. THE COMMUNIST BLOC

ok East Germany: Premier Khrushchev may attend the East German fifth party congress which is to be held 10-16 July. This is suggested by an Austrian announcement that Chancellor Raab's visit to the Soviet Union, originally scheduled to begin 13 July, has been postponed one week because Khrushchev "will be abroad." The Kremlin might wish to demonstrate again its support for party leader Ulbricht.

ok *Communist China: Peiping's declaration that the US must resume Sino-American ambassadorial talks "within 15 days" carries an implicit threat that the Communists may increase their pressure in the Taiwan Strait area.

II. ASIA-AFRICA

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ok Sudan-UAR: Prime Minister Khalil says opposition political leaders have promised Nasir to bring the Sudan into the UAR, provided he helps them oust the present pro-Western coalition government. Khalil faces possible defeat in a parliamentary vote set for 3 July on acceptance of the government-sponsored American aid program. The opposition is making a major effort to buy votes, probably using Egyptian-supplied funds. [redacted]

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No Cyprus: Communal clashes again broke out on 29 June but were halted by British security forces. EOKA has instructed its followers to hold off temporarily, but threatens to renew violence against the British unless London begins direct negotiations with Archbishop Makarios on the question of "independence" for the island. In Turkey the press is less inflammatory, but mass meetings, with highly emotional orators, continue to be held under tight security control. [redacted]

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25X1 ok Morocco-USSR: The Moroccan Government decided in principle on 23 June on the early establishment of diplomatic relations with the Soviet Union and on the extension of official recognition to Communist China. [redacted]

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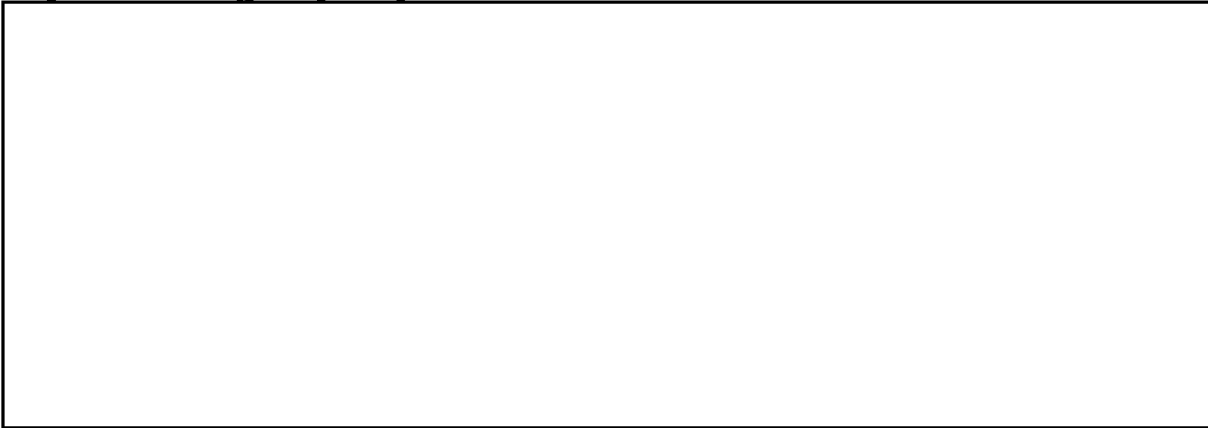
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DAILY BRIEF

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New Chinese Nationalist premier: The appointment of Chen Cheng, considered the second most powerful man on Taiwan, as premier of Nationalist China further bolsters his prospects as successor to Chiang Kai-shek. The first task of Chen, who presumably remains vice president as well, probably will be to tighten the discipline of the ruling Kuomintang, which in recent months has failed to support Chiang on policy matters which he considered vital.



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LATE ITEM

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*USSR-Yugoslavia: Moscow appears to have shifted from its rough tactics with the Yugoslavs in offering to discuss several questions concerning economic relations. The move precedes Nasir's visit to Tito and is designed to counter charges that Soviet economic assistance is dependent upon political considerations. It follows Gomulka's recent compromise on the Nagy issue and may also have been intended as a tactical relaxation of the bloc's political atmosphere.



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DAILY BRIEF

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I. THE COMMUNIST BLOC

Khrushchev May Attend East German Congress

Premier Khrushchev may attend the East German fifth party congress, to be held from 10 to 16 July. This is suggested by the Austrian announcement that Chancellor Raab's visit to Moscow, originally scheduled to begin 13 July, will be postponed for one week because the Kremlin leader "will be abroad." Khrushchev has already gone to East Germany once during the past year to support Ulbricht against strong internal party opposition.

Ulbricht's fight against his political opponents, which was intensified by the Schirdewan purge in February, has most recently been manifested by reorganization of the party at the district level designed to present a unified front during the congress. Ulbricht is said to fear that a continuing controversy over the Schirdewan affair may erupt at the congress and demonstrate his party's disunity to an embarrassing degree.

Ulbricht, apparently emboldened by Nagy's execution, reportedly would like to bring to trial at least one Schirdewan supporter, former Security Minister Wollweber.

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Peiping's Demand for Sino-American Talks

Communist China's official warning on 30 June that the United States must resume talks at the ambassadorial level "within 15 days" or Peiping will regard the talks as broken off carries an implied threat of increased Communist pressure in the Taiwan Strait area. The statement charges that continuing US "occupation" of Taiwan is "a naked act of aggression... and the Chinese people have the full right to take whatever measures to repulse it."

Sino-American ambassadorial talks were carried on for more than two years at Geneva, but have been in abeyance since last December when Ambassador Johnson was reassigned. The Chinese have refused to meet with an American below the rank of ambassador.

In its note, delivered to the US Consulate General in Geneva and broadcast over Peiping radio, Peiping proclaimed that "the Chinese people are perfectly strong enough to liberate their territory of Taiwan" and that the US can only suffer "isolation and defeat" in its policy of "enmity" toward Communist China.

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II. ASIA-AFRICA

Lebanese Situation

Kamal Jumblatt's Druze forces on 30 June launched an attack against progovernment irregulars in the mountains five miles east of the Beirut International Airport. Heavy fighting began in the early morning hours and continued throughout the day, with the Lebanese Air Force mounting rocket attacks against the invading Druze. American and British women and children were hurriedly evacuated from the area.

25X1 [redacted] Jumblatt is disgruntled with rebel leaders Saib Salam in Beirut and Rashid Karami in Tripoli because of their failure to join in an all-out offensive against Beirut. Many opposition fighters are also said to be discontented with their leaders, who are not actually fighting. The followers of one Shia Moslem leader are disgruntled by Syrian aid to Sunni Moslems, who, in turn, are alarmed at the large arms deliveries to Lebanese Druze. Another indication of dissension within rebel ranks is the public defection of the son of a prominent Shia Moslem antigovernment leader from southern Lebanon.

25X6 Army commander General Shihab has reached an agreement with tribal leaders in the Biqa Valley whereby tribesmen will be "inducted" into the army as reservists. For the Lebanese military forces, the arrangement will prevent rebel inroads among friendly and uncommitted tribesmen and will increase the rebel difficulties in controlling the northern Biqa.

25X1 [redacted]
[redacted] UN Secretary General Hammarskjold has concluded from this that orders have gone

out from Nasir to halt UAR aid to the rebels and that Nasir's trip to Yugoslavia is "a good sign." The secretary general's optimism appears to be unwarranted, however, since UAR intervention in Lebanon was stepped up when Nasir visited the USSR, and the rebels have sufficient supplies of materiel to continue their operations for some time.

Lebanon's economy has been further weakened under the pressure of continuous stagnation as a result of the rebellion. Employers who have been paying idle and near-idle workers in an effort to keep them from joining street mobs are now becoming unable to do so. Government officials believe that soon as many as 20,000 workers will be on the streets without any means of support.

Large numbers of merchants and industrialists have nearly exhausted their liquid funds and are borrowing to meet current expenditures. The banks, however, are unable to supply funds in the required quantities. The central bank, in an effort to ease the liquidity shortage, reportedly has expanded the note issue by about 10 percent in the past few weeks and could increase the notes in circulation by an additional 14 percent within the next several days. Should these actions fail to halt the drop in liquidity, the Lebanese pound could quickly suffer a crisis of confidence, and a run for foreign exchange might occur.

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Sudanese Government Under Egyptian Pressure

The coalition government of Sudanese Prime Minister Khalil will undergo a severe test of strength when it attempts to push through approval of the American aid program in Parliament on 3 July. Khalil appears confident of winning by at least a small majority, but an intense struggle is going on to win the votes of wavering or uncommitted members of the 173-man house of representatives. Khalil has stated that opposition leaders have sent a declaration to UAR President Nasir urging his assistance and promising in return to join the Sudan with the UAR if the present government is overthrown. They are alleged to be offering bribes of as much as \$1,500 for each vote against American aid, with funds probably furnished by the UAR.

Failure to win the Parliament's approval would probably mean the end of the present coalition made up of Khalil's Umma party and the People's Democratic party. In this case, Khalil, as leader of the largest party in the government, might be compelled to try to form a broader "national" government, including participation by the pro-Egyptian National Unionist party, with a decidedly more "neutralist" posture. A victory by only a small majority might also be followed by a change in the coalition, with Khalil bringing pro-Umma southerners into the government and expelling the dissident members of the People's Democratic party.

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Morocco Considering Early Exchange of Ambassadors With
USSR and Communist China

25X1 The Moroccan Government decided in principle on 23 June to establish diplomatic relations with the Soviet Union soon, [REDACTED] The government is also expected to announce "official recognition" of Communist China in a few days; diplomatic relations are expected soon thereafter.

Moscow will probably press for immediate exchange of diplomatic missions, once Rabat agrees to relations, and can be expected to move quickly to persuade Tunisia to follow suit. Soviet embassies in both Rabat and Tunis would make possible closer coordination of the USSR's policies in France and North Africa. The Soviet and Chinese Communist missions would be the first bloc missions in North Africa. Morocco's recognition of Communist China might well stimulate Peiping to press other African countries to consider similar steps.

In April, a Moroccan economic delegation negotiated a trade agreement in Moscow, and a second Moroccan economic mission left last week for the USSR to discuss implementation of the trade agreement. A three-member Soviet economic mission was recently established in Casablanca and is attempting to expand the import of Soviet products--notably petroleum and lumber--by Morocco.

A Moroccan parliamentary delegation made an official visit to Peiping in April 1957, and a Moroccan economic mission concluded a trade agreement with Communist China in October. The Moroccan delegation to the United Nations in September came out in favor of Peiping's admission to the United Nations. [REDACTED]

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New Chinese Nationalist Premier

Chiang Kai-shek's selection of Vice President Chen Cheng to replace O. K. Yui as Chinese Nationalist premier probably is designed to re-establish discipline within the ruling Kuomintang and assure that party members in the legislature will support the government. The esteem Chen enjoys as a highly respected old-line party leader should aid him in accomplishing this task.

Chen's nomination further strengthens his position as Chiang's successor. Chiang last October appointed Chen deputy director general of the Kuomintang, apparently with the intention of naming Chen to succeed him as leader of the party as well as to the presidency. Chen's new position, which he presumably will hold along with his other posts, may help forestall a power struggle over the succession.

Yui's ouster had been expected since last February, when Chiang reprimanded him for "dereliction of duty" following his impeachment by the Control Yuan--the inspectorate branch of the government.

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LATE ITEM

USSR Proposes Economic Talks with Belgrade

Moscow's offer to Belgrade to discuss "several questions concerning economic" relations in light of the USSR's 27 May suspension of its credit agreement with Yugoslavia represents a shift from the rough tactics Moscow has been using recently in an effort to forge bloc unity. The Soviet proposal apparently was timed to precede Egyptian President Nasir's visit with Tito in order to demonstrate that economic relations with Moscow are not dependent on political considerations.

The tone of the announcement is one of reasonableness and correctness, bearing out Khrushchev's statements on 3 June at the Bulgarian party congress that even if party relations with Yugoslavia were impossible, he wanted "normal state relations." The Albanians and Czechs, in a joint communiqué issued on 30 June at the conclusion of a six-day visit by the Czech premier to Tirana, said that they had agreed to maintain state relations with Yugoslavia as long as they are both "mutually profitable" and "in agreement with the interests of the socialist camp."

The 27 May loan suspension had little effect on current Yugoslav - Soviet bloc economic relations. Trade on current account was not interrupted, and only Soviet and possibly East German credits for economic development were suspended. The Yugoslavs had scheduled the utilization of only a portion of these credits, possibly because of caution engendered by the USSR's suspension of credits in 1957 during an earlier stage of the ideological conflict. The Soviet announcement of 30 June does not reinstate the suspended credits. The new proposal repeats an offer--

originally made when the credits were canceled--to discuss with the Yugoslav Government the cash sale or barter of those items obligated or contemplated under the credits.

Following Gomulka's recent compromise statement on the Nagy question, the Soviet proposal to the Yugoslavs may have also been intended as a tactical relaxation of the political atmosphere in the bloc. Polish fears that Moscow intends to put immediate economic pressure on Warsaw to conform fully to bloc policies may be somewhat relieved. The Poles, however, are unlikely to assume that any slackening has occurred in Moscow's basic policy designed to achieve bloc unity.

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